The Conference Board

Economic Analysis Program

Survey Of Financial Indicators

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Introductory Note: This is the twenty-second issue of a semiannual Conference Board survey initiated in October, 1976. Based on the views of a panel of senior financial executives of leading U.S. nonfinancial corporations, the survey reports their financing plans and the economic and financial expectations on which these plans are based.

According to the 27 senior financial executives who participated in the latest survey:

- The U.S. economy will experience growth of 2.4 to 3 percent during the next two years, with slightly rising interest rates.
- Inflation will remain low in 1987 and average 3.9 percent over the coming five-year period.
- Major currencies will strengthen somewhat from their March 1, levels against the U.S. dollar.

Moderate Growth Ahead

The financial executives participating in the survey continue to see at least two more years of moderate growth ahead for the U.S. economy. Since the October 1986 survey, they have lowered their growth estimates for 1987 to 2.4 percent, but have raised them for 1988, to 3 percent. And they have, once again, lowered their sights on inflation. They now see the GNP deflator rising at only 2.5 percent this year and 3.3 percent in 1988.

In line with this favorable outlook, both long-term and short-term interest rates should remain well-behaved: the Aaa rate will average 8.4 percent in 1987 and 8.7 percent next year, while the prime rate will average 7.5 percent this year and 8 percent in 1988. For the next two years, no panel member foresees a recession, or a rise in the average rate of inflation to 5 percent, or a return to double-digit interest rates.

An Increase in Internal Corporate Funds

The corporations that participated in the survey relied more heavily on external funds: over 30 percent of total funds were raised externally in the past 12-month period as compared to the usual 20 percent. Several companies, however, indicated that the actual dollar amounts of external funds were lower in the past 12 months than in the preceding 12-month period. The financing pattern for the coming period indicates that companies are looking to rely more on internal funds. Eleven are planning a relative increase of 10 percent or more.

In their use of external financing, companies depended heavily on bonds and commercial bank-term loans for long-term funds and on commercial paper for short-term funds in the past 12 months. Once again, they did not increase net new equity funds, despite the sharp rise in the stock market. Surprisingly, only two companies are planning to raise net new equity funds in the coming twelve months, and the external financing pattern is not expected to change much from that of the past 12-month period.

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The Five-Year Outlook for Inflation

Following two large drops in expected inflation in April of 1985 and 1986, expectations of inflation are nearing a point of inflection. According to 23 executives who gave their five-year outlook for inflation, the GNP deflator would average 3.9 percent, slightly below the 4.1 percent average foreseen last April. The range, however, has widened from earlier periods: one executive now sees inflation as high as 8 percent, while another sees it as low as 2 percent. The panel's outlook for inflation during the next 2 years (2.5 percent and 3.3 percent) suggests that the GNP deflator will average roughly 4.6 percent in 1989-91.

THE PANEL'S OUTLOOK FOR INFLATION

NUMBER OF PANEL MEMBERS

	Less than 4 percent	*4 percent but less than 5 percent*	*5 percent but less than 6 percent*	*6 percent but less than 7 percent*	*7 percent and above*	*Range*	*Average*
April 1983	1	5	15	6	4	2.5-8.2	5.6
April 1984	1	2	9	19	4	3.5-7.1	5.9
April 1985	4	15	14	4	0	2.8-6.5	4.8
April 1986	9	13	2	2	0	2.5-6.5	4.1
April 1987	11	10	1	0	1	2.0-8.0	3.9

A Moderately Lower Dollar

The financial executives whose companies engage in international operations look for the U.S. dollar to weaken moderately from its March 1 rates against other major currencies. The majority sees the British pound, the German mark and the Japanese yen appreciating by 1 to 5 percent against the dollar in both forecast periods. In view of the late March decline of the dollar, the panel's view implies little further decline from existing levels in the months ahead. The majority of executives also look for a slight increase in the dollar price of gold in both forecast periods.

Vincent G. Massaro

Summary of Survey Responses

1. Please give your estimates of the average levels of the Aaa rate, the prime rate and the Dow-Jones average for each month or year listed. Also, please give your estimates of real GNP and the GNP deflator, using annual rates of change.

Indicator	Latest Available Average (at time of Survey)	Outlook: Average June '87 (2nd Q GNP)	Outlook: Average Sept. '87 (3rd Q GNP)	Outlook: Average 1987	Outlook: Average 1988
New Aaa industrial rate (%)	8.5	8.4	8.5	8.4	8.7
Prime rate (%)	7.5	7.7	7.8	7.5	8.0
Dow-Jones Average (Index)	2,158.0	2,274.0	2,315.0	2,258.0	2,293.0
Real GNP (%)	1.7	2.6	2.9	2.4	3.0
GNP deflator (%)	1.0	2.5	2.9	2.5	3.3

2. In column A, please enter the actual percentage composition of funds which your corporation generated or raised during the past 12 month period. In column B, please show how the *relative* amount of each source of funds generated or raised by your corporation in the coming 12 month period will differ from the past 12 month period.

	A	B Outlook (coming 12 months)—Number of Respondents				
	Actual (past 12 months)	Stable (Up or Down by less than 5 percentage points)	Up (percentage points) 5-9.99	Up (percentage points) 10 or more	Down (percentage points) 5-9.99	Down (percentage points) 10 or more
(a) Composition of Total Funds						
Internal Funds*	69	6	0	11	2	4
External Funds	31	6	2	4	0	11
	100%					
(b) Composition of *External Funds*						
Net new bond issues	37.2	4	1	6	0	7
Private placements	8.5	13	1	1	0	3
Net new equity	0.5	16	0	2	0	0
Bank term loans	14.1	13	0	4	0	1
Bank short-term loans	7.9	14	0	1	0	3
Commercial paper	24.4	11	0	3	1	3
Other	7.4	11	1	3	0	3
	100%					

*Retained earnings; charges for depreciation, depletion and amortization; sales of assets (excluding sale-leaseback proceeds); sales and redemptions of government and corporate securities.

3. Only if you are engaged in international operations, please indicate how each item below is expected to change against the U.S. dollar as of March 1, 1987:

	Latest Available	Expected Change: By June 30, 1987 — Less than 1% change	Appreciate 1%-5%	Appreciate ►5%	Depreciate 1%-5%	Depreciate ►5%	By Sept. 30, 1987 — Less than 1% change	Appreciate 1%-5%	Appreciate ►5%	Depreciate 1%-5%	Depreciate ►5%
Canadian dollar	$ .75	13	7	0	2	0	8	7	0	6	1
British pound	1.55	7	11	0	4	0	6	11	0	3	1
German mark	.5473	5	13	1	3	0	2	13	4	2	1
Japanese yen	.0065	5	11	1	4	1	3	12	2	4	1
Gold	$405.85	6	9	2	1	0	6	7	4	0	1

UPCOMING MEETINGS AND CONFERENCES FOR SENIOR EXECUTIVES

April 16	San Francisco	Fairmont Hotel	The West Coast Financial Conference
May 20	New York	The Plaza	Chief Executive Briefing
May 29	Chicago	Chicago Hilton	The Mid-Year Business Outlook Conference
September 10	New York	The Waldorf-Astoria	1988 Business Outlook Conference
November 4	Zurich, Switzerland	Hotel International, Zurich	International Business and Financial Outlook Conference
November 17	San Francisco	The Mark Hopkins	Financial Briefing for Executives
November 24	New York	The Waldorf-Astoria	Financial Briefing for Executives

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